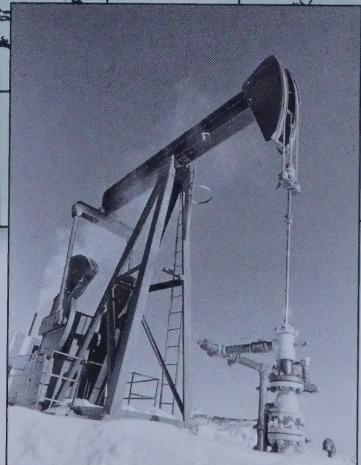
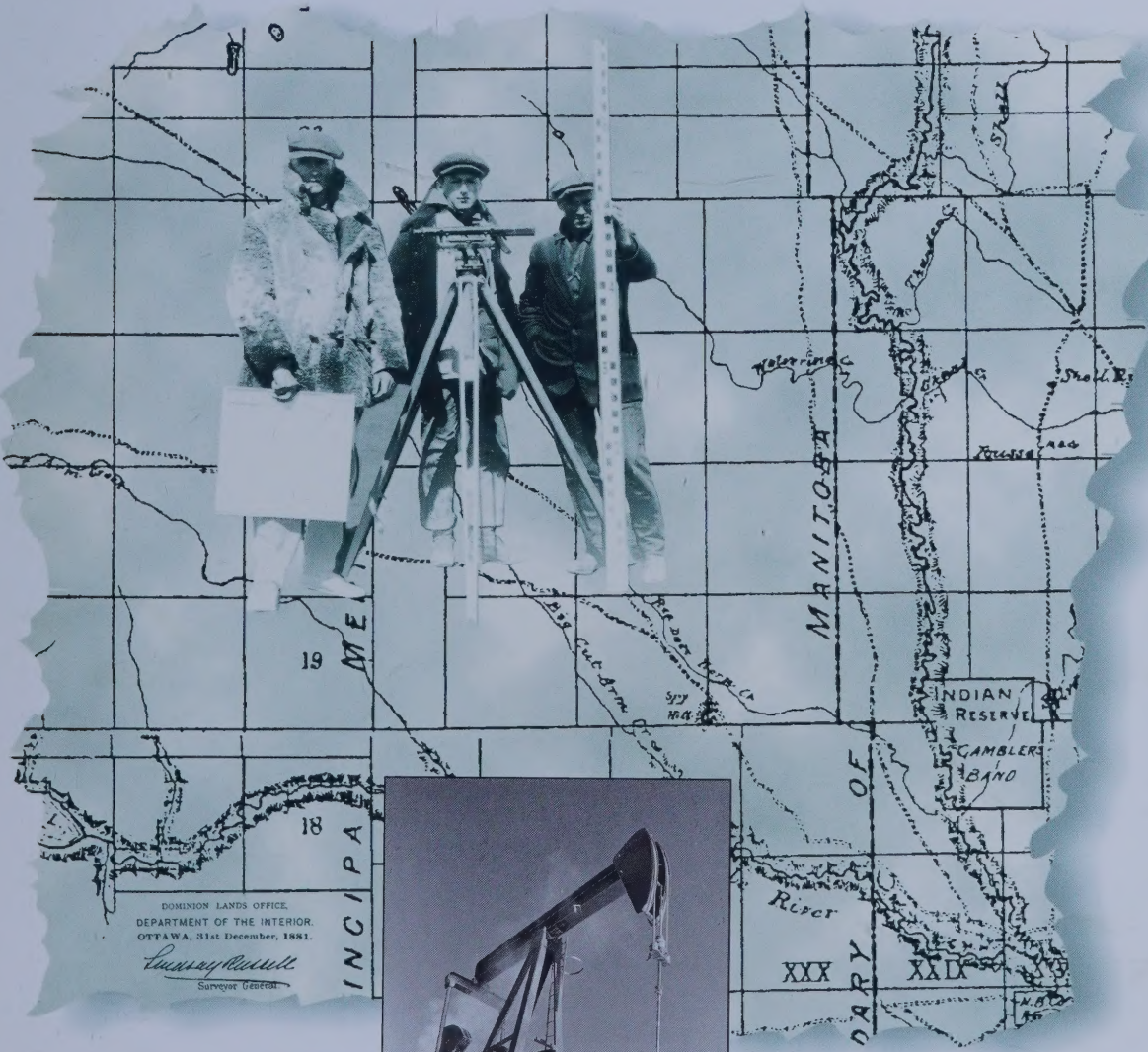


Nineteen Ninety-Five

ANNUAL REPORT



**FOUNDERS**  
ENERGY LTD.



## CORPORATE PROFILE

Founders Energy Ltd. is a growth oriented junior resource company engaged in the acquisition, exploration and development of oil and gas properties in Alberta and Saskatchewan. The Company's common shares are listed for trading on the Alberta Stock Exchange under the trading symbol "FDE".

## ANNUAL MEETING

The annual meeting of the shareholders of Founders Energy Ltd. will be held in the Royal Room of the Metropolitan Centre at 333 - 4th Avenue S.W., Calgary, Alberta on Thursday, June 27, 1996 at 2:30 p.m.

## THE COVER

The cover illustration is taken from an original 1881 survey map of southeastern Saskatchewan, in the approximate area of Founders Energy acreage. The surveying party, photographed in 1914, represent the early crews who mapped the prairies.

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## TABLE OF ABBREVIATIONS

bbls	barrels (oil)
mbbls	thousands of barrels
boe	barrels of oil equivalent
mboe	thousands of barrels of oil equivalent
mcf	thousand cubic feet (gas)
mmcf	million cubic feet
bcf	billion cubic feet

## TO THE SHAREHOLDERS

Founders is pleased to report that 1995 was a breakthrough year, with the Company achieving significant growth in reserves and production through acquisitions and drilling.

During 1995, the Company developed a strategy for growth within an environment of difficult equity markets and where there was a limited supply of quality acquisition opportunities. Our strategy was focused on acquiring one or more quality producing properties, at prices that the company could afford without having to access the equity markets. We also believed it was fundamental that any acquisition offer significant upside potential through optimization and development.

***We are pleased to report that, as a result of this patient and prudent approach, the Company made considerable progress in the implementation of its growth plan throughout the later part of the year and in early 1996.***

## ACQUISITIONS

In August and September 1995, Founders completed two separate acquisitions of interests in four producing crude oil wells and offsetting lands in the Handsworth area of southeast Saskatchewan, increasing our average overall working interest in the area to approximately 23 percent. These acquisitions and our participation in a fifth well at Handsworth increased the Company's average crude oil production from 25 bbls per day to 75 bbls per day. More importantly, these acquisitions positioned the Company to take full advantage of the horizontal drilling opportunities that we believed existed in the area.

In October 1995, Founders also acquired a 45 percent working interest in 25 producing shallow gas wells in the Hilda area of southeast Alberta. The Company's net share of production from these wells is approximately 225 mcf per day. We plan to undertake a low cost refracturing program in 1996 to exploit the area's upside potential.

## OPERATIONS

During 1995, the Company participated in drilling three (0.86 net) wells resulting in one (0.26 net) producing oil well in the Handsworth area of southeast Saskatchewan, one (0.10 net) producing oil well at Bellshill Lake in east central Alberta and one (0.50 net) cased gas well in the Poundmaker area of west central Saskatchewan. Average production increased from 23 boe per day at the beginning of the year to a 1995 exit rate of approximately 95 boe per day. Production averaged 48 boe per day for the year. The 1995 drilling and acquisition programs resulted in net reserve additions of 177,600 bbls of crude oil and 1,165 mmcf of natural gas for an overall finding and acquisition cost of \$2.72 per boe.

The loss of \$121,739 for 1995 is largely attributable to higher general and administrative expenses resulting from an increase in the level of acquisition, exploration and development activity. The significant increase in daily production levels in the first quarter of 1996 is expected to result in a substantial increase in cash flow and earnings for 1996.





Founders Management Team: *from left to right*, Joe Beardsworth, Mark Oliver, Randy Masuda, Tom Buchanan, Kelly Cowan.

## NEW DEVELOPMENTS

During the first quarter of 1996 the Company participated in the drilling of three successful horizontal wells in the Handsworth area. These wells are currently producing at an average combined rate of approximately 1,500 (345 net) bbls per day however, we expect normal production declines to occur. As a result, it is important that the Company aggressively pursue other development drilling opportunities which exist on Company lands in order to sustain current production levels and show continued growth. Additional horizontal locations in Handsworth have been identified and will be drilled after spring breakup.

In March 1996, Founders and Lateral Vector Resources Inc., each company participating as to 50 percent, acquired all of the southeast Saskatchewan oil and gas assets of Reserve Royalty

Corporation. Founders and Lateral Vector have split operatorship of the assets, which are comprised of more than 20 operated properties and 140 wells. This significant acquisition has added more than 600,000 net bbls of proved producing crude oil reserves to Founders at a cost of \$3.55 per bbl. Founders' net share of production from these properties is approximately 225 bbls per day. We believe that the properties offer significant upside potential through horizontal and infill drilling. In addition, exploration potential exists in specific areas. Founders is presently creating a development and optimization strategy for the properties, which will be implemented in 1996.

***As a result of horizontal drilling success and the Reserve Royalty acquisition, average daily production during the first quarter of 1996 has increased by more than 600 percent from the Company's 1995 exit rate to the current production level of approximately 670 boe per day.***

## FINANCING

In order to finance the Company's horizontal drilling program in the Handsworth area, a flow-through share offering was completed in December 1995. This offering, combined with a smaller flow-through offering in the summer of 1995, raised a total of \$357,900 at a price of \$0.20 per share.

In March 1996, the Company increased its bank line of credit to \$1.7 million and issued 1,325,000 common shares and 400,000 common share purchase warrants exercisable at \$0.50 per share on or before March 8, 1997. These funds were used to finance the acquisition of the southeast Saskatchewan assets from Reserve Royalty Corporation.



Also in March 1996, Founders completed another private placement of flow-through common shares, issuing 1,508,000 common shares at a price of \$0.3846 per share and 435,000 common share purchase warrants exercisable at \$0.50 per share on or before March 15, 1997 for gross proceeds of \$579,993.

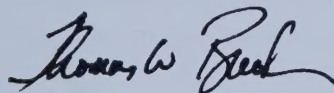
# OUTLOOK

**Founders is now poised for significant future growth through horizontal drilling and optimization.**

The establishment of southeast Saskatchewan as a core area has provided the Company with a solid production base, long life reserves and stable cash flow in an area where the Company has a proven track record. We also now have the financial ability to pursue selected exploration opportunities, both in southeast Saskatchewan and Alberta.

During 1995, we were pleased to add Mr. Mark Oliver as Exploration Manager and Mr. Randy Masuda as Consulting Geophysicist to our technical team. In March 1996, Mr. Joe Beardsworth joined the Company as Manager Engineering and Operations. These individuals are highly regarded professionals, each having several years of diversified experience and proven track records. With the exceptional team of professionals that we have assembled, the Company is now fully positioned to generate, evaluate and operate new and existing prospects and opportunities.

We would also like to thank our shareholders for their continued support and look forward to sharing in the Company's continued success.



THOMAS W. BUCHANAN

President

April 16, 1996



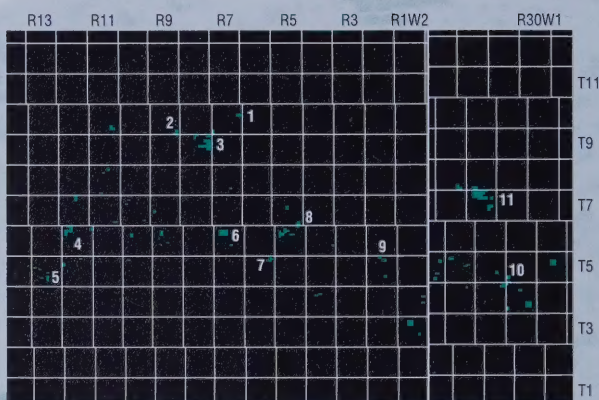


## PRINCIPAL AREAS OF ACTIVITY

### SOUTHEAST SASKATCHEWAN

#### KEY AREAS

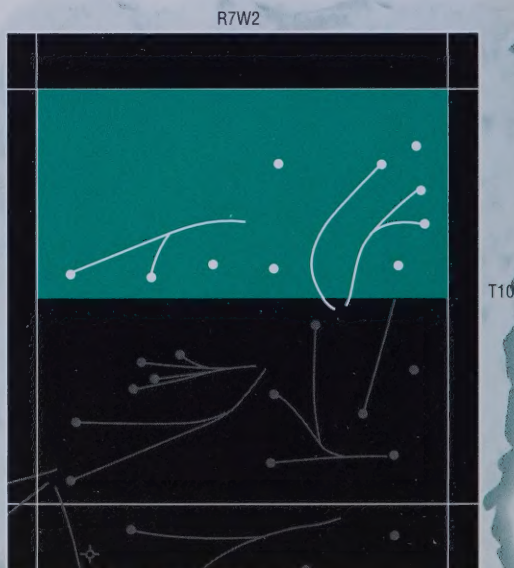
1. Handsworth
2. Hartaven
3. Melrose
4. Weyburn
5. Goodwater
6. Benson East
7. Weir Hill
8. Browning
9. Willmar
10. Rosebank
11. Lightning



Effective March 1, 1996 the Company completed the acquisition of more than 20 operated properties and 140 wells from Reserve Royalty Corporation. This acquisition was made jointly with Lateral Vector Resources Ltd., each company participating as to a 50 percent interest. Founders and Lateral Vector will each operate approximately one-half of the acquired assets. The acquisition has increased the Company's daily average production by approximately 225 bbls of oil per day but, more importantly, we believe that the properties offer significant development potential through horizontal and infill drilling. Exploration potential also exists in certain areas where the Company has existing operations.

#### HANDSWORTH, SASKATCHEWAN

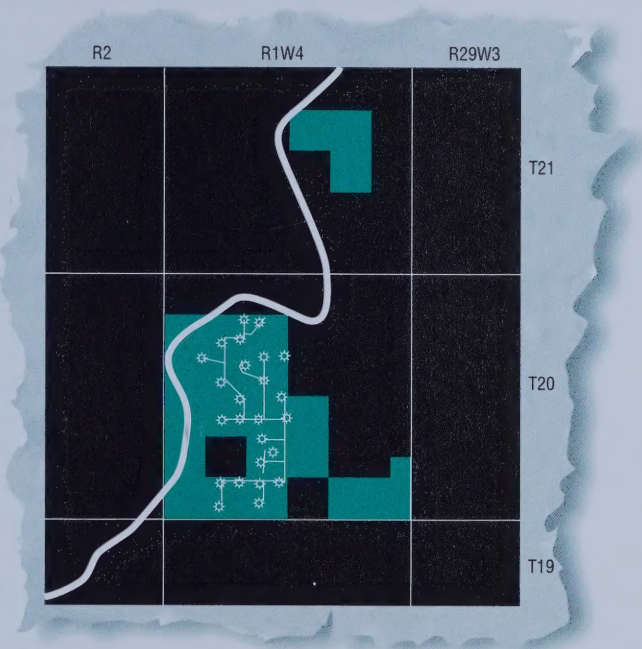
The Handsworth area is located approximately 70 kilometers northeast of Weyburn where Founders has an average 23 percent working interest in eight producing oil wells and a gathering system. During 1995 the Company completed two separate acquisitions from partners and participated in drilling a new well, increasing our net share of crude oil production in the area to approximately 75 bbls per day. A 4.5 square mile three-dimensional seismic program was acquired and interpreted in November 1995 and several potential horizontal drilling locations were identified on Company lands. Three (0.7 net) successful horizontal



wells were drilled in the first quarter of 1996 and are currently producing at a combined rate of approximately 1,500 (345 net) bbls per day, resulting in a substantial increase in the Company's cash flow. Additional horizontal locations are planned to be drilled immediately after spring breakup.

#### *HILDA NORTH, ALBERTA*

The Hilda North area is located approximately 100 kilometers northeast of Medicine Hat. In October 1995, Founders acquired a 45 percent working interest in 25 producing shallow gas wells plus additional undrilled lands. The primary producing zones are the Milk River and Medicine Hat formations, with existing wells currently producing at a combined rate of 500 mcf/d (225 net). Excellent upside potential exists by undertaking a refracturing program which, depending on favorable gas prices, the Company plans to complete in 1996. In addition, several drilling locations exist on the Company lands which consist of 13,600 (5,304 net) acres.



#### *BELLSHILL LAKE, ALBERTA*

The Bellshill Lake area is located approximately 125 kilometers northeast of Red Deer. Founders has an average 12 percent working interest in three producing crude oil wells in the area. Founders' net share of crude oil production is currently averaging 12 bbls per day from the Basal Quartz Formation. The Company will participate in one (0.1 net) infill well during the first half of 1996.

#### *GOODWATER, SASKATCHEWAN*

The Company is the operator and holds 480 acres (171 net) of land offsetting its producing Midale oil well in this area, located 35 kilometers southeast of Weyburn. The well is currently producing from the Midale Marly zone and is capable of production from the Frobisher. The Company's net share of production from the area is presently averaging 10 bbls per day. Founders is reviewing its operations in this area in light of recent horizontal drilling activity offsetting our acreage. In addition, the March 1996 acquisition of wells and lands from Reserve Royalty Corporation should provide the Company with the ability to optimize its operations.



## RESERVES

Founders' reserves have been evaluated as at January 1, 1996 by the independent petroleum engineering firm of Sproule and Associates Ltd. ("Sproule"). The following tables summarize the Sproule report:

### COMPANY'S SHARE OF REMAINING RESERVES BEFORE ROYALTIES

	Crude Oil	Natural Gas	Bbls of Oil Equivalent
	mbbls	mmcf	mboe
Proved	320.3	580	378.3
Probable	22.8	556	78.4
Total	343.1	1,136	456.7

### RESERVE RECONCILIATION

	Crude Oil			Natural Gas		
	Proved	Probable	Total	Proved	Probable	Total
At January 1, 1995	170.3	9.4	179.7	-	-	-
Additions	227.7	-	227.7	609	556	1,165
Revisions	(63.5)	13.4	(50.1)	-	-	-
Production	(14.2)	-	(14.2)	(29)	-	(29)
At January 1, 1996	320.3	22.8	343.1	580	556	1,136

### PRESENT VALUE OF FUTURE CASH FLOWS BEFORE TAX

(\$000's)	Undiscounted	Discounted at		
		10%	15%	20%
Proven	\$ 4,515	\$ 3,210	\$ 2,860	\$ 2,602
Probable	479	224	171	135
Total	\$ 4,994	\$ 3,434	\$ 3,031	\$ 2,737

Note 1 - Probable values have been reduced by 50% to account for risk.

The acquisition of the southeast Saskatchewan assets of Reserve Royalty Corporation, effective March 1, 1996 has added proven producing reserves of 759,000 bbls. Based on a valuation by the independent petroleum engineering firm of Dobson Resource Management Ltd., the reserves have a value of \$2,977,000 discounted at 15 percent.



## FINDING AND ONSTREAM COSTS

The following table summarizes Founders' finding and onstream costs for new reserves added in 1995 and for the two years ended December 31, 1995:

	Amount Expended in 1995	Cost per boe 1995 Average	Cost per boe Two Year Average
Land and acquisitions	\$ 448,459	\$ 1.52	\$ 1.88
Exploration and development	295,954	1.01	1.24
Equipment and facilities	54,238	0.19	0.23
Total finding and onstream costs	\$ 798,651	\$ 2.72	\$ 3.35

## LAND SUMMARY

(in acres)

	Developed		Undeveloped		Total	
	Gross	Net	Gross	Net	Gross	Net
Alberta	6,040	2,676	9,600	3,600	15,640	6,276
Saskatchewan	400	115	3,760	2,072	4,160	2,187
Totals at December 31, 1995	6,440	2,791	13,360	5,672	19,800	8,463
Reserve Royalty Acquisition (effective March 1, 1996)	7,076	1,511	13,716	3,478	20,772	4,989
Totals at March 1, 1996	13,516	4,302	27,076	9,150	40,572	13,452

## PRODUCTION

The following summarizes the Company's production by area:

	1995 Average		December 1995		March 1996	
	Oil	Gas	Oil	Gas	Oil	Gas
Area Name	bpd	mcf/d	bpd	mcf/d	bpd	mcf/d
Handsworth	19	—	50	—	400	—
Bellshill Lake	12	—	12	—	12	—
Hilda North	—	80	—	225	—	225
Goodwater	9	—	10	—	10	—
Reserve Royalty Acquisition (effective March 1, 1996)	—	—	—	—	225	—
Totals	40	80	72	225	647	225
Oil/Gas Split (%)	83	17	76	24	97	3

The following discussion and analysis should be read in conjunction with the audited financial statements of Founders for the year ending December 31, 1995 and compares the financial and operating results for 1995 with those of 1994.

#### OPERATIONS

Petroleum and natural gas sales, net of royalties, increased by 113 percent to \$244,771 in 1995 from \$115,003 in 1994. This increase is directly related to increased production volumes and a slight increase in average crude oil prices for the year. The average selling price of crude oil was \$18.72 per bbl in 1995 compared to \$18.29 per bbl in 1994. The average royalty rate, after Alberta Royalty Tax Credit, increased to 21.8 percent in 1995 compared to 16.3 percent in 1994.

Production expenses were \$106,557 in 1995 (\$6.17 per boe) compared to \$44,088 (\$5.87 per boe) in 1994. The increase in per bbl production expenses is primarily attributed to increased fluid handling and transportation costs in the Handsworth and Goodwater areas of southeast Saskatchewan. In June 1995 the Company participated in the construction of a gathering system in the Handsworth area which has reduced the per unit operating costs in the area.

Netbacks were \$8.00 per boe in 1995 compared to \$9.44 per boe in 1994. The decrease in netbacks is almost entirely attributed to increased fluid handling costs in the Goodwater and Handsworth areas of southeast Saskatchewan.

The loss for 1995 was \$121,739 or \$0.01 per share compared to a loss of \$54,411 or \$0.01 per share in 1994. The increased loss for 1995 is largely attributable to increased general and administrative expenses resulting from increased acquisition, exploration and development activity.

#### GENERAL AND ADMINISTRATION EXPENSE

General and administration expense, before capitalization, increased to \$267,034 in 1995 compared to \$203,335 for 1994 as a result of increased activity and additional technical staff. The Company capitalized administration costs directly associated with exploration and development activities amounting to \$110,763 in 1995 and \$104,120 in 1994.

#### INTEREST EXPENSE

The Company established a revolving reducing credit facility in the amount of \$500,000 with a Canadian Chartered Bank in September 1995. Interest is charged on amounts drawn against the facility at an annual rate of prime plus one percent. During 1995 interest expense amounted to \$10,059.

#### DEPLETION, DEPRECIATION AND AMORTIZATION

Depletion, depreciation and amortization amounted to \$100,513 or \$5.82 per boe in 1995 compared to \$41,504 or \$5.52 per boe in 1994.



## INCOME TAXES

The Company did not pay federal or provincial income taxes in either 1995 or 1994. At the end of 1995 the Company had unutilized tax pools totaling \$1.8 million. It is expected that Founders will have sufficient tax pools to shelter income from taxation in 1996.

## LIQUIDITY AND CAPITAL RESOURCES

During 1995, Founders raised \$357,900 from two flow-through share offerings and in September 1995 the Company established a \$500,000 revolving, reducing credit facility with a Canadian Chartered Bank. The credit facility was used primarily to finance the acquisition of certain oil and natural gas properties located in the Handsworth area of Saskatchewan and the Hilda North area of Alberta. The flow-through share offerings were used primarily to finance drilling in the Poundmaker and Handsworth areas.

Capital expenditures, including acquisitions, amounted to \$803,044 for 1995 compared to \$890,996 in 1994. These expenditures were funded from cash flow, the proceeds of the flow-through share offerings and from the Company's credit facility. Horizontal drilling scheduled for the first quarter of 1996 will be funded from the proceeds of the flow-through share offering completed in December 1995.

## BUSINESS RISKS

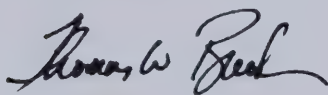
The oil and gas industry is subject to numerous risks that can affect the growth and profitability of the Company. These risks include the ability of the Company to find and develop new reserves in economic quantities, fluctuations in commodity prices and exchange rates, the ability of the Company to access financing and the supply and demand for oil and natural gas. Founders has assembled a management team with extensive industry experience and has developed a strategy of finding, developing and acquiring low cost, long life reserves in areas with developed operational infrastructure, year round access and within close proximity to markets. To date the Company has not implemented a strategy of hedging commodity prices. However, with a significant increase in production volumes and with a strengthening of world oil prices, the Company may consider incorporating a hedging strategy in the future.

## BALANCE SHEETS

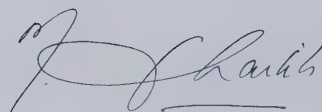
	As at December 31,	
	1995	1994
<i>ASSETS</i>		
<i>CURRENT</i>		
Cash	\$ —	\$ 411,036
Accounts receivable	99,122	53,404
Share subscriptions	42,500	—
Prepays	6,750	—
	148,372	464,440
<i>PROPERTY, PLANT AND EQUIPMENT</i> [note 3]	1,653,679	951,148
	\$ 1,802,051	\$ 1,415,588
<i>LIABILITIES AND SHAREHOLDERS' EQUITY</i>		
<i>CURRENT LIABILITIES</i>		
Bank Indebtedness	\$ 10,544	\$ —
Accounts payable and accrued liabilities	302,464	354,416
Current portion of long term debt [note 4]	120,000	—
	433,008	354,416
<i>LONG TERM DEBT</i> [note 4]	85,000	—
<i>SHAREHOLDERS' EQUITY</i>		
Share capital [note 5]	1,460,193	1,115,583
Deficit	(176,150)	(54,411)
	1,284,043	1,061,172
	\$ 1,802,051	\$ 1,415,588

See accompanying notes

On behalf of the Board:



Director



Director



## STATEMENT OF LOSS AND DEFICIT

	Year ended December 31	
	1995	1994
<i>REVENUE</i>		
Oil sales	\$ 313,187	\$ 137,387
Less: royalties (net of ARTC)	68,416	22,384
	244,771	115,003
Other income	6,890	15,393
	251,661	130,396
<i>EXPENSES</i>		
Production	106,557	44,088
General and administrative	156,271	99,215
Interest expense	10,059	-
Depletion and depreciation	100,513	41,504
	373,400	184,807
<i>LOSS FOR THE YEAR</i>	(121,739)	(54,411)
<i>DEFICIT AT BEGINNING OF YEAR</i>	(54,411)	-
<i>DEFICIT AT END OF YEAR</i>	\$ (176,150)	\$ (54,411)
<i>LOSS PER COMMON SHARE</i> [note 6]	\$ (0.01)	\$ (0.01)

See accompanying notes

## STATEMENT OF CHANGES IN FINANCIAL POSITION

	Year ended December 31	
	1995	1994
<i>CASH PROVIDED BY OPERATING ACTIVITIES</i>		
Loss for the year	\$ (121,739)	\$ (54,411)
Add non-cash item		
Depletion and depreciation	100,513	41,504
Cash deficiency from operating activities	(21,226)	(12,907)
Net change in non-cash working capital	(104,420)	207,318
	(125,646)	194,411
<i>CASH USED IN INVESTING ACTIVITIES</i>		
Property, plant and equipment	(803,044)	(890,996)
<i>CASH PROVIDED BY FINANCING ACTIVITIES</i>		
Increase in long term debt	205,000	—
Share subscriptions	(42,500)	590,000
Issue of common shares	344,610	375,583
	507,110	965,583
<i>INCREASE (DECREASE) IN CASH</i>	(421,580)	268,998
<i>CASH, BEGINNING OF YEAR</i>	411,036	142,038
<i>CASH (BANK INDEBTEDNESS), END OF YEAR</i>	\$ (10,544)	\$ 411,036

See accompanying notes

## AUDITORS' REPORT TO THE SHAREHOLDERS OF FOUNDERS ENERGY LTD.

We have audited the balance sheets of Founders Energy Ltd. as at December 31, 1995 and 1994 and the statements of loss and deficit and changes in financial position for the years then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these financial statements present fairly, in all material respects, the financial position of the Company as at December 31, 1995 and 1994 and the results of its operations and the changes in its financial position for the years then ended in accordance with generally accepted accounting principles.

Price Waterhouse

Calgary, Canada

March 8, 1996

Chartered Accountants



## NOTES TO FINANCIAL STATEMENTS

December 31, 1995

### 1. BASIS OF PRESENTATION

- A) At the Annual and Special General Meeting held on November 23, 1994, the shareholders of Tarasol Ventures Inc. ("Tarasol") approved a reverse takeover of the Company by Founders Energy Ltd. ("Founders"), the change of name from Tarasol to Founders and the consolidation of the Common Shares of the Company on the basis of one share for every two shares previously held. - see Note 1(b).

Prior to the reverse takeover, Tarasol was a junior capital pool on the Alberta Stock Exchange and the reverse takeover by Founders constitutes its major transaction within the meaning of Alberta Securities Commission Policy No. 4:11 and Circular No. 7 of the Alberta Stock Exchange.

The balance sheets of the Corporation at December 31, 1994 and the related statement of loss and deficit and changes in financial position for the year then ended include the assets, liabilities and results of operations of Founders for the period January 1, 1994 through November 22, 1994 and the combined assets, liabilities and results of operations of Founders and Tarasol from November 23, 1994, the effective date of the transaction, following the application of reverse takeover accounting principles using the purchase method of accounting.

- B) Effective November 23, 1994, Tarasol acquired all of the issued and outstanding shares of Founders by way of the issuance of 11,580,000 Common Shares of Tarasol. As a result of the transaction, the original Founders shareholders owned approximately 62.3 percent of the issued and outstanding common shares of the Company. Reverse takeover accounting principles have been applied by the Corporation to record this acquisition using the purchase method of accounting. Accordingly the combined entity is considered to be a continuation of Founders with the assets of Tarasol deemed to have been acquired by Founders, effective November 23, 1994 at their fair market value of \$372,983.

The net assets acquired are summarized as follows:

Current assets, including cash of \$379,062	\$ 387,282
Current liabilities assumed	14,299
Net assets acquired	<u>\$ 372,983</u>

### 2. SIGNIFICANT ACCOUNTING POLICIES

#### PROPERTY, PLANT AND EQUIPMENT

##### A) JOINT VENTURE OPERATIONS

Substantially all of the exploration, development and production activities of the Corporation are conducted jointly with others. The financial statements reflect only the Corporation's proportionate interest in such activities.

##### B) PROPERTY, PLANT AND EQUIPMENT

###### OIL AND GAS

The Corporation follows the full cost method of accounting, whereby all costs associated with the exploration for and development of oil and gas reserves are capitalized. Such amounts include land acquisition costs, geological and geophysical costs, carrying costs of non-productive properties, costs of drilling productive and non-productive wells, administration costs related to exploration and development activities and related plant and equipment costs.

Unimpaired costs associated with the acquisition and evaluation of significant unproved properties are excluded from amounts subject to depletion until such time as the properties are proved.

The provision for depletion and depreciation is determined using the unit-of-production method based on the Corporation's share of gross proven reserves of oil and gas. Reserves and production of gas and associated liquids are converted into equivalent barrels of oil based on relative energy content.

Gains or losses on the disposition of oil and gas properties are not recognized in the statement of earnings unless the depletion and depreciation rate would be changed by 20% or more.

Oil and gas properties are subject to a ceiling test under which their carrying value, net of deferred income taxes and accumulated provision for site reclamation and abandonment costs, is limited to the undiscounted future net revenue from production of estimated proven oil and gas reserves, based on year end commodity prices, plus the unimpaired costs of unproved properties less estimated future administration, interest, site reclamation and abandonment costs and income taxes.

#### *SITE RESTORATION*

The provision for estimated site restoration and abandonment costs is determined using the unit-of-production method. The provision is included in depletion and depreciation expense.

#### *OFFICE EQUIPMENT*

Office equipment is recorded at cost and depreciated using the straight-line basis at the following rates:

Computer hardware and software	33%
Office equipment	20%

### *3. PROPERTY, PLANT AND EQUIPMENT*

	1995		1994	
	Cost	Accumulated depletion and depreciation	Cost	Accumulated depletion and depreciation
Oil and gas properties	\$ 1,742,468	\$ 119,564	\$ 943,817	\$ 32,936
Office equipment	53,228	22,453	48,835	8,568
Total	\$ 1,795,696	\$ 142,017	\$ 992,652	\$ 41,504
Net book value	\$ 1,653,679		\$ 951,148	

The Corporation has capitalized general and administrative costs for the year ended December 31, 1995 totaling \$110,763 (year ended December 31, 1994 - \$104,120).

Costs associated with unproved properties excluded from costs subject to depletion for the year ended December 31, 1995 amounted to \$ 175,428 (year ended December 31, 1994 - \$280,823).

The net book value of assets with no tax base is \$15,976 (year ended December 31, 1994 - \$ 0).

### *4. LONG TERM DEBT*

In October 1995, the Corporation established a \$500,000 revolving reducing loan facility with a major Canadian Bank. Amounts drawn on this facility bear interest at bank prime rate plus one percent and are repayable in equal quarterly installments of \$ 30,000. As collateral security, the Corporation has pledged a \$1 million floating charge debenture against all of its property and a \$1 million fixed charge debenture against its major oil and natural gas properties. At December 31, 1995 the Corporation had drawn \$205,000 against this facility.



## 5. SHARE CAPITAL

## (A) AUTHORIZED

Unlimited number of common voting shares

Unlimited number of preferred shares, issuable in series

## (B) ISSUED

		Year ended December 31			
		1995		1994	
		Number of shares	Amount	Number of shares	Amount
Balance at beginning of period	9,303,000	\$	1,115,583	7,000,000	\$ 740,000
Private placement of					
flow-through common shares	1,789,500		344,610	-	-
Shares issued to acquire					
Founders Energy Ltd.	-	-	-	11,580,000	372,983
Shares issued for					
services rendered	-	-	-	26,000	2,600
Share consolidation	-	-	-	(9,303,000)	-
Common shares outstanding					
at the end of the period		11,092,500	\$ 1,460,193	9,303,000	\$ 1,115,583

The weighted average number of shares outstanding during the year, as referenced in Note 6, have been calculated to give retroactive effect to the 2 for 1 consolidation of the common shares of the Corporation on November 23, 1994.

## (C) EMPLOYEE INCENTIVE STOCK OPTION PLAN

The Corporation has an Employee Incentive Stock Option Plan ("Plan") which is administered by the Board of Directors of the Corporation. All full time employees, officers and all directors of the Corporation are eligible to participate in the Plan. Under the terms of the Plan, the Corporation has reserved an amount equal to ten percent of the issued and outstanding shares of the Corporation for stock options. The following table summarizes transactions during the past two years pursuant to the Plan:

	1995	1994
Option for common shares		
Outstanding at beginning of year	900,000	-
Granted during the year	270,300	900,000
Cancelled during the year	(225,000)	-
Outstanding at end of year	945,300	900,000

Stock options are exercisable at prices ranging from \$0.10 to \$0.30 per common share expiring at dates between November 23, 1999 and December 15, 2001.

## 6. LOSS PER COMMON SHARE

Loss per common share for the year ended December 31, 1995 is \$ 0.01 (year ended December 31, 1994 - \$0.01) and is calculated based on the weighted average number of common shares outstanding during the period of 9,345,300 (year ended December 31, 1994 - 7,246,074).

There are no factors that would have a significant dilutive effect on the loss per common share.

7. *INCOME TAXES*

The actual income tax provision differs from the expected amount calculated by applying the Canadian combined Federal and Provincial corporate income tax rate of 44.4 percent as follows:

	Year ended December 31	
	1995	1994
Expected Income tax recovery	\$ (54,052)	\$ (24,126)
Increase (decrease) resulting from:		
Non-deductible crown charges	8,276	6,638
Alberta Royalty Tax Credit	(4,508)	(4,128)
Other	3,030	1,199
Tax benefit not recognized on current year losses	47,254	20,417
	\$ -	\$ -

At December 31, 1995 the Corporation had approximately \$173,000 (December 31, 1994 - \$67,000) of tax deductions available in excess of book deductions of which the benefit of \$77,500 (December 31, 1994 - \$30,000) has not been recorded.

8. *COMMITMENTS*

The Corporation is committed under an operating lease in respect of the space occupied by its head office. The lease expires on May 31, 1999 and requires annual rental payments over the next four years as follows (includes base rent and estimated operating costs):

1996	\$ 21,310
1997	\$ 22,080
1998	\$ 23,150
1999	\$ 9,960

9. *SUBSEQUENT EVENT*

On March 8, 1996 Founders and Lateral Vector Resources Inc. ("LVR"), each company participating as to 50 percent, acquired all of the southeast Saskatchewan oil and gas assets of Reserve Royalty Corporation. Founders share of the purchase price was \$2.133 million and was financed by cash, debt and the issuance of 1,325,000 common shares and 400,000 common share purchase warrants exercisable at \$0.50 per share on or before March 8, 1997. In order to fund the cash component of the consideration paid, the Company increased its revolving reducing credit facility to \$1.7 million.







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